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Section 179 valuation as at 31 October 2013

Hewlett-Packard Limited Retirement Benefits Plan –

Digital Section

26 March 2014

Prepared for

The Trustees of the Hewlett-Packard Limited Retirement Benefits Plan

Prepared by

David Eteen FIA, Scheme Actuary

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Executive Summary

I have carried out a section 179 valuation of the Digital Section of the Hewlett-Packard Limited Retirement Benefits Plan ('the Plan') as at 31October 2013, at the request of the Trustees.

The purpose of the valuation is to provide the Pension Protection Fund ('the PPF') with information to calculate the Pension Protection Levy.

- At the valuation date the Plan had a deficit of £176M. This corresponds to a ratio of assets over liabilities of 87%
- If the details on the certificate in Appendix E are submitted to the PPF via the Pension Regulator's 'Exchange' website before 5 p.m. on 31 March 2014 they will be used by the PPF when calculating the Plan's PPF levy from 2014/2015 onwards (until the next Section 179 valuation is submitted and recognised by the PPF)
- We will submit the results to the PPF via Exchange before 5 p.m. on 31 March 2014 as this is expected to reduce the Plan's 2014/2015 PPF levy by about £185k
- The next section 179 valuation must be carried out no later than as at 31 October 2016 (i.e. three years after the effective date of this valuation)

Table of Contents

1. Introduction

Section 179 valuation

This report sets out the results of my valuation of the Digital Section of the Hewlett-Packard Limited Retirement Benefits Plan as at 31 October 2013 which has been conducted in line with:

- The Pension Protection Fund (Valuation) Regulations 2005;
- Section 179 of the Pensions Act 2004; and
- Section 179 guidance issued by the Board of the Pension Protection Fund

For this valuation I have used:

- Version number G5 of the section 179 guidance
- Version number A6 of the section 179 assumptions

The purpose of this valuation is to provide the PPF with information to calculate the scheme-based and risk-based elements of the Pension Protection Levy.

Please note that this valuation only assesses the value of those parts of the Plan benefits which correspond to those protected by the PPF (described in Appendix A).

This valuation should not be used for other purposes, such as determining future contribution levels, assessing the overall solvency position of the Plan or deriving pension costs for company accounting.

Timing of valuation

The valuation date reflects the date of the latest audited Trustee Report & Accounts of the Plan.

As the Section 179 valuation as at 31 October 2012 was submitted to the PPF through Exchange last year, this Section 179 valuation is being carried out on a voluntary basis.

Actuarial compliance

This report, and the work relating to it, complies with:

- Technical Actuarial Standard R: Reporting Actuarial Information
- Technical Actuarial Standard D: Data
- Technical Actuarial Standard M: Modelling
- Pensions Technical Actuarial Standard

The compliance of this report with TAS R is determined on the basis that I do not anticipate the Trustees making any decisions based directly on this report. If the Trustees are considering making any such decisions, please let me know and I can provide appropriate advice.

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2. Data

Membership data

The Plan's Administrators, Equiniti Paymaster, supplied me with details of the membership as at 31 July 2013 together with details of contributions and benefits paid between 31 July 2013 and 31 October 2013. I have also been provided with an audited copy of the latest Trustees' Report and Financial Statements which includes summary details of membership numbers at the valuation date of 31 October 2013. I have relied on the accuracy of the data supplied.

I have carried out some general checks on the quality of the data but please notify me if you have any reason to believe that the data I have used is incomplete or inaccurate.

The membership data used in my calculations is summarised in Appendix B.

Assumptions made in relation to the membership data

In order to simplify the work needed and reduce the time spent, and hence cost of our calculations, I made the following additional approximations:

- I have assumed that there were no member movements (leavers, retirements, transfers etc.) between 31 July 2013 and 31 October 2013. I have, however, allowed for benefits accrued by active members between 31 July 2013 and 31 October 2013
- Members under the PPF pension age at the date of assessment who are in receipt of their pension benefits have their pension under the PPF capped (unless they retired through ill-health). The cap, £27,637.21 per annum at age 60 (after the application of the 90% compensation adjustment), is lower at younger ages. If the member had received a cash lump sum at retirement then this may be taken into account when calculating the capped benefits. I have not attempted to adjust the liabilities for any such lump sums
- I have assumed that the impact of the Court Order dated 31 October 2013 applicable to In Scope In-Plan AVCs is to increase the Section 179 liabilities by £2M

Please note that the PPF require that any approximations should be expected to *over*state the liabilities. Accordingly, the PPF levies based on the results of this valuation are likely to be higher than if no approximations were made.

These approximations do not prevent me from certifying the valuation results for the PPF, as I am only required to confirm that the PPF liabilities have not in my opinion been understated.

I am not aware of any external liabilities of the Plan.

Assets

The assets used for the purposes of this valuation are described in Appendix C, and are based on the audited Trustee Report & Accounts for the year ended 31 October 2013. The audited asset value has been used, but reduced by:

- £10.1M to allow for assets relating to money purchase benefits not yet in payment (deriving from Additional Voluntary Contributions)
- £5.3M to reflect the estimated buy-out cost of pensions already in payment which were purchased in the Plan using money purchase benefits

The assets have been reduced by these amounts as the corresponding liabilities are not included in the Section 179 valuation. The asset value used does not reflect any reduction to allow for potential sale costs of assets on discontinuance.

For a section 179 valuation, the Plan's liabilities are valued with reference to gilt yields and so the section 179 valuation result may be volatile to the extent that other assets are held, especially equity and property holdings whose value is not directly affected by bond yield movements.

3. Assumptions

Assumptions	The assumptions adopted for a section 179 valuation are prescribed by the PPF, in accordance with legislation. Appendix D details the assumptions used for this valuation. The key assumptions used are the assumed discount rates (which are derived based on prevailing gilt yields) and the assumed mortality rates.
CPI indexation of PPF compensation	Compensation provided by the PPF (both before and after retirement, where applicable) is now based on the Consumer Prices Index instead of the Retail Prices Index. However, there has been no change in the way in which the assumptions prescribed by the PPF are derived.

4. Results

Balance sheet

The results of my section 179 valuation are as follows:

	£M
Liabilities for active members (excluding expenses)	226.2
Liabilities for deferred members (excluding expenses)	675.2
Liabilities for pensioner members (excluding expenses)	463.8
Estimated expenses of winding up	15.1
Estimated expenses of benefit installation/payment	4.9
External liabilities	0
Total protected liabilities	**1,385.2**
Total assets	1,209.3
PPF surplus/(deficit)	**(175.9)**
PPF funding level	87%

These figures exclude certain benefits provided by the Plan over and above the corresponding PPF benefits, as discussed in Appendix A.

These figures are therefore unlikely to be representative of the cost of buying out the full benefits of the Plan with annuity providers.

Action

If the details on the certificate in Appendix E are submitted to the PPF via the Pension Regulator's 'Exchange' website before 5 p.m. on 31 March 2014 they will be used by the PPF when calculating the Plan's PPF levy from 2014/2015 onwards (until the next Section 179 valuation is submitted and recognised by the PPF)

Submission of the results before 5 p.m. on 31 March 2014 is expected to reduce the Plan's 2014/2015 PPF levy by about £185k. We will therefore ensure the results are submitted before then.

Submission of the Section 179 valuation results means the next section 179 valuation must be carried out no later than as at 31 October 2016 (i.e. three years after the effective date of this valuation) and must be submitted to the PPF via Exchange no later than 31 January 2018.

Signed

David Eteen FIA
Scheme Actuary
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david.eteen@aonhewitt.com

Appendix A—Digital Section Benefit Structure

The Plan benefit structure is summarised below for members in service at the valuation date. Different benefit structures apply for some members, in particular members who left pensionable service in the past. As described later in this appendix, the benefits that are protected under the PPF are restricted below the full Plan benefit levels, and the section 179 valuation requires a proxy of the PPF benefits to be valued.

Normal Pension Date	A member's 65th birthday. Males who left after 1 July 1988 and all females, can retire with an unreduced pension from age 60, with no Company or Trustees' consent required.
Pensionable Salary	Pensionable Salary is the annual basic salary on 1 July each year, less an amount equal to 1.5 times the annual Basic State Pension for a single person at that date.
Pensionable Service	Complete continuous years and months of service as a member of the Plan, including Pensionable Service credited to the member under the Digital Pension Plan before 1 October 2006.
Final Pensionable Salary	Final Pensionable Salary is the best average of member's Pensionable Salary during any 12 consecutive months in the 5 years before leaving Pensionable Service.
Normal retirement pension	On normal retirement, a member paying higher rate contributions receives a pension calculated as: (i) 1/50 of a member's Final Pensionable Salary for Pensionable Service to 1 July 1988 plus (ii) 1/60 of a member's Final Pensionable Salary for Pensionable Service from 1 July 1988 For members who have chosen to pay lower contributions, a range of lower accrual rates apply.
Death after retirement	If a member dies within five years of retiring, a lump sum equal to the balance of five years' pension payments, less any pension payments for a spouse to the end of that period; plus A spouse's pension of 60% of the member's pension that would have been payable if the member had not taken a commutation lump sum. Dependents' and children's pensions may also be payable.
Pension increases in payment	Pensions in excess of GMP relating to pensionable service before 6 April 1997 receive increases at the discretion of the Company. Pensions relating to pensionable service from 6 April 1997 to 30 June 2005 are subject to guaranteed increases in line with the Retail Prices Index capped at 5% per annum. Pensions relating to pensionable service after 30 June 2005 are subject to guaranteed increases in line with the Retail Prices Index capped at either 2.5% per annum or 5% per annum depending on member election. GMP accrued between 6 April 1988 and 5 April 1997 is increased in line with GMP Increase Orders.

Pension increases in deferment

GMP is increased in deferment at a rate fixed at the date of leaving service.

Benefits in excess of GMP are increased in line with statutory deferred increase orders, subject to a maximum increase of 5% p.a. for the period of deferment in respect of service prior to 6 April 2009. For members who left service before 1 January 1991, increases to non-GMP benefit may be below this level.

For service after 5 April 2009, the maximum increase is 2.5% p.a. for the period of deferment.

Benefits valued for Section 179 purposes

The benefits valued for the purpose of a section 179 valuation are restricted in line with the level of compensation that would be payable following entry to the PPF. The benefits we have valued are therefore as follows:

- For members who:
  - have reached the Plan's normal pension age*; or
  - are receiving a dependant's pension; or
  - retired due to ill-health

  I have valued 100% of their pension.

  *For this purpose, 'normal pension age' is determined as prescribed in paragraph 34 of Schedule 7 to the Pensions Act 2004; broadly the earliest age at which the pension normally becomes payable without actuarial reduction. Different normal pension ages may apply to different parts of a member's pension
- For other members, I have valued 90% of the pension payable, subject to an overall 'compensation cap' on the benefit payable. The cap applied in these calculations is £27,637.21 per annum at age 60 with a lower cap applied for current pensioner members aged under 60
- In line with the guidance on section 179 valuations published by the PPF, I have made implicit allowance for future increases to this cap to be in line with the rate of revaluation set out below
- For members who have not retired, I have implicitly allowed for revaluation of benefits between the valuation date and the assumed date of retirement in line with Retail Prices Index capped at 5% per annum for service prior to 6 April 2009, and capped at 2.5% per annum for service after that date, based on the PPF's current requirements. Past revaluation (up until the valuation date) has been allowed for at the levels that apply under the provisions of the Plan, which differ in the treatment of GMP and non-GMP pension
- I have only allowed for future increases in payment on benefits accrued after 5 April 1997. The allowance reflects increases in line with the Consumer Prices Index capped at 2.5% per annum. Actual past pension increases for pensioners have been allowed for in the benefits valued

- I have allowed for contingent spouses’ pensions on death in retirement based on 50% of the pension in payment for current pensioners, rather than the level of spouses’ pensions that would actually be payable under the Plan, which are based on the member’s pre-commutation pension
- I have not allowed for equalisation of GMP benefits in the calculation of the Plan's section 179 liabilities as part of this valuation. The PPF has announced it is taking action to equalise GMP benefits for schemes that are transferred to the PPF (i.e. following sponsor insolvency). Had I allowed for GMP equalisation the Plan's section 179 liabilities would have been higher

Appendix B—Membership Data

Active members at 31 July 2013

	Number	Average age	Total Annual Salary (£000 p.a.)	Average service (years)
Total	520	51.5	29,121	24

Notes: Average service includes transferred-in service

Deferred pensioners at 31 July 2013

	Number	Average age	Total pensions (£000 p.a.)
Total	6,808	51.8	36,717

Notes: Deferred pensions shown are expressed at date of valuation

Pensioners at 31 July 2013

	Number	Average age	Total pensions (see below) (£000 p.a.)
Total	3,214	66.1	27,301

Notes: Numbers include dependants and children. Pension figures exclude any uplift payable at State Pension Age in the future and include £296,000 p.a. in respect of money purchase pensions in payment.

The Trustees' Report and Financial Statements state that, as at 31 October 2013, there were 513 active members, 6,784 deferred members and 3,237 pensioners

Appendix C—Assets

The audited Trustee's Report and Financial Statements for the year ended 31 October 2013 give the assets for the Hewlett-Packard Section as £1,224.7M.

For Section 179 purposes, the assets and liabilities valued exclude Additional Voluntary Contributions that are invested separately from the rest of the Plan's assets to secure additional money purchase benefits. These amounted to £10.1M at 31 October 2013.

For the Section 179 valuation, this asset value has then been *reduced* by a further £5.3M to reflect the liability in respect of the money purchase pensions in payment (which is not included in the Section 179 liabilities for consistency), giving a net figure for Section 179 valuation purposes of £1,209.3M.

Appendix D—Assumptions

Financial assumptions

Post-retirement discount rate	3.46% per annum, for non increasing pensions (this is the pension accrued *before* 6 April 1997). 0.96% per annum net of increase, for increasing pensions (this is the pension accrued *after* 5 April 1997, and the assumption allows for increases in payment in line with price inflation limited to 2.5% per annum).
Pre-retirement discount rate	-0.32% (minus 0.32%) per annum net of increases in deferment for benefits accrued *before* 6 April 2009 (this allows for increases in deferment in line with price inflation limited to 5% per annum). 0.72% per annum net of increases in deferment for benefits accrued *after* 6 April 2009 (this allows for increases in deferment in line with price inflation limited to 2.5% per annum).

Demographic assumptions

Mortality before and after retirement	Standard tables PCMA00 and PCFA00 applicable for the member's year of birth, making allowance for improvements in mortality in line with the P92 Medium Cohort Improvement Factors, subject to a minimum underpin of 1.5% per annum for males and 1% per annum for females.
Family details	Age difference between member and dependent-males are assumed to be three years older than females. 85% of male members and 75% of female members are assumed to be married at retirement or earlier death. Children's pensions in payment are assumed to cease at age 18, or age 23 if currently aged over 17.

Expenses

Estimated wind-up expenses	▪ 3% of liabilities (excluding benefit installation /payment expenses) up to £50M; plus ▪ 2% of liabilities (excluding benefit installation /payment expenses) between £50M and £100M; plus ▪ 1% of liabilities (excluding benefit installation /payment expenses) in excess of £100M.

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Benefit installation / payment expenses

Non-pensioners:

An allowance of £500 per member.

Pensioners:

Age	Expense allowance per member
<60	£450
60 - 70	£400
70 – 80	£300
80+	£250

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Appendix E—Section 179 valuation certificate

Scheme / Section details

Full name of scheme:	Hewlett-Packard Limited Retirement Benefits Plan – Digital Section
Name of section, if applicable:	Digital Section
Pension Scheme Registration Number:	19003503
Address of scheme (or section, where applicable)	
	Mr M Wilkins, Pensions Manager
	Hewlett-Packard Limited
	Cain Road, Amen Corner
	Bracknell
	Berkshire
	Postcode: RG12 1HN
Section 179 valuation	
Effective date of this valuation (dd/mm//yyyy):	31 October 2013
Guidance and assumptions	
s179 guidance used for this valuation:	G5
s179 assumptions used for this valuation:	A6
Assets	
Total assets (this figure should not be reduced by the amount of any external liabilities and should include the insurance policies referred to below):	£1,209,300,000
Date of relevant accounts (dd/mm/yyyy):	31 October 2013
Percentage of the assets shown above held in the form of a contract of insurance where this is not included in the asset value recorded in the relevant scheme accounts:	0%
Liabilities	
Please show liabilities for:	
Active members (excluding expenses):	£226,200,000
Deferred members (excluding expenses):	£675,200,000
Pensioner members (excluding expenses):	£463,800,000
Estimated expenses of winding up:	£15,100,000
Estimated expenses of benefit installation/payment:	£4,900,000
External liabilities:	£0
Total protected liabilities:	£1,385,200,000

Please provide the percentage of the liabilities shown above that are fully matched by insured annuity contracts for:

Active members:	0%
Deferred members:	0%
Pensioner members:	0%

Proportion of liabilities

Please show the percentage of liabilities which relate to each period of service for:

	Before 6 April 1997	6 April 1997 to 5 April 2009 (inclusive)	After 5 April 2009
Active members	25.0%	56.7%	18.3%
Deferred members	75.3%	24.3%	0.4%
	Before 6 April 1997	After 5 April 1997	
Pensioner members	75.6%	24.4%	

Number of members and average ages

For each member type, please show the number of members and the average age (weighted by protected liabilities) as at the effective date of this valuation. Average ages should be rounded to the nearest whole year.

	Number	Average age
Active members	513	52
Deferred members	6,784	54
Pensioner members	3,237	65

I certify that this valuation has been carried out in accordance with the Pension Protection Fund (Valuation) Regulations 2005 and with the appropriate section 179 guidance and assumptions issued by the Board of the Pension Protection Fund. I also certify that the calculated value of the protected liabilities is, in my opinion, unlikely to have been understated.

Signature:		Date:	26 March 2014
Name:	David Eteen		
Qualification	Fellow of the Institute and Faculty of Actuaries	Employer:	Aon Hewitt Limited